

Washington State Auditor's Office

Audit Report

Audit Services

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WASHINGTON STATE UNIVERSITY

Agency No. 365

July 1, 1995 Through June 30, 1996

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WASHINGTON STATE UNIVERSITY
Agency No. 365
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Overview

We performed the statewide single audit of the state of Washington for the fiscal year ended June 30, 1996. In accordance with the Single Audit Act of 1984, we audited the state as an entity, rather than each agency separately. The results of this audit will be published in a statewide single audit report which includes the following:

- An opinion on the financial statements.
- A report on internal control structure-related matters based solely on an assessment of control risk made as part of the audit of the financial statements.
- A report on compliance with laws and regulations that may have a material effect on the financial statements.
- An opinion on supplementary Schedule of Federal Financial Assistance.
- A report on internal controls over federal financial assistance.
- An opinion on compliance with specific requirements applicable to major federal financial assistance programs.
- A report on compliance with general requirements applicable to federal financial assistance programs.
- A report on compliance with laws and regulations applicable to nonmajor federal financial assistance program transactions tested.
- A Schedule of Findings and Schedule of Questioned Costs.

The work performed at the Washington State University included procedures to satisfy the requirements of the 1996 statewide single audit and supplemental reviews and tests deemed necessary in the circumstances.

There were findings, which are listed in the Schedule of Findings following this Overview, for the Washington State University.

Brian Sonntag
State Auditor

February 27, 1997

Schedule Of Findings

1. Washington State University (WSU) Should Require Adherence To Controls Associated With The Administration Of Sponsored Projects At The Department Level

Sponsored projects consist of activities which are funded, in whole or in part, by grants, contracts, and cooperative agreements with sponsoring agencies including the federal government, state of Washington and private donors. WSU is responsible for ensuring that the expenditures charged to sponsored funds are allowable and in compliance with agreement terms, conditions, and budget limitations. The university has delegated much of this responsibility to department personnel.

During our review of expenditures charged to sponsored projects, we found that departments requested in excess of \$1 million in cost transfers for the period under audit. We also noted that some sponsored project accounts were overdraft. Cost transfers are required when departmental account administrators and principal investigators are not diligent in monitoring account activity and assigning costs to the appropriate funding source. Actions which result in cost transfers and account overdrafts include, but are not limited to, the following:

- ◆ Retroactive or untimely personnel appointments
- ◆ Untimely consideration and authorization of advance expenditures
- ◆ Untimely account monitoring
- ◆ Inaccurate initial account coding for the sake of convenience or expediency
- ◆ Disregard for established university controls, policies, and procedures
- ◆ Inadvertent account coding errors

Office of Management and Budget (OMB) Circular A-21, Section C.4, Allocable costs, states in part:

- b. Any costs allocable to a particular sponsored agreement . . . may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience.
- c. Any costs allocable to activities sponsored by industry, foreign governments or other sponsors may not be shifted to federally-sponsored agreements.

WSU *Business Policies and Procedures* manual, Finance 30.25 states in part:

Expenditure transfers are considered exception to standard policy. The Controller's Office discourages manipulation of accounts by expenditure transfer. Personnel are to ensure that expenditures are initially assigned to the correct account.

Finance 30.21 further states:

. . . Without specific approval from the central administration, overdrafts are considered unacceptable. Overdrafts are to be prevented by careful account monitoring

The principal investigator and department chair are responsible for ensuring that expenditures on a sponsored account do not exceed moneys received from the sponsor. University management has improved the centralized financial administration and monitoring of sponsored projects and cost transfers in the sponsored projects finance office, but numerous cost transfers and overdraft accounts are still originating in the departments. Inadequate monitoring and administration of sponsored accounts at the department level increases the risk that unallowable costs could be charged to sponsored projects and errors and irregularities could occur and not be detected in a timely manner, if at all. This condition has been reported in each of the four preceding audit reports.

We recommend WSU require adherence to controls associated with the administration of sponsored projects at the departmental level.

Auditee's Response

WSU does require adherence to controls associated with the administration of sponsored projects at the departmental level. Training is provided to departmental personnel administering sponsored projects. Instances of non-compliance with established University controls are followed up on and corrected by the Sponsored Projects Finance Office.

2. Washington State University (WSU) Should Improve Implementation Of Established Internal Controls Policies And Procedures Over Decentralized Cash Operations

WSU central administration has delegated the responsibility for implementation of established internal controls related to cash operations to each cash handling unit. Each unit is responsible for preparing initial documentation to support receipts received at decentralized locations and maintaining records for centrally approved bank account and petty cash funds. Our review of the university's decentralized cash operations revealed the following internal control weaknesses:

- Adequate segregation of duties or supervisory review does not always exist.
- Cash collections are not always supported by prenumbered, official receipts or cash register tapes.
- Receipts are not always issued in a timely manner.
- Cash collections are not always deposited timely and intact.

- Mail is not always opened by two persons and the mail remittances are not always listed in duplicate when the mail is opened.
- The sequence of prenumbered official receipts is not always accounted for.
- Checks are not always restrictively endorsed upon receipt.
- Voided transactions are not always reconciled, verified, and approved.
- Funds authorized as till change funds are inappropriately used to make refunds.
- Check stock and receipts waiting deposit are not always stored in a secure location.
- Unauthorized petty cash funds exist.
- Petty cash accounts were not always reconciled monthly to the bank in a timely manner.
- Although significant improvement was noted for athletic department cash receipting deficiencies from prior audits, current year testing revealed continuing problems in the consistent investigation, monitoring, and approval of cash overages/shortages and discrepancies in the composition of deposits.

The state of Washington Office of Financial Management's (OFM) *Policies, Regulations, and Procedures Manual*, Section 6.2.2.1.1. states in part:

- a. No individual is to have complete control in the handling of money, recording the transactions, and reconciling bank accounts. Employees handling cash are to be assigned duties that are complementary to or checked by another employee.
- b. Incoming cash is to be made a matter of record as soon as possible.
- c. Mail is to be opened by two persons. Remittances by mail are to be listed in duplicate at the time the mail is opened. The listing is to be prepared by a person other than the one opening the mail . . .
- f. Cash is to be protected by the use of registers, safes, or locks and kept in areas of limited access.
- g. Collections made over the counter . . . are to be documented by the issuance of sequentially prenumbered official receipts or through cash registers . . . All such receipts are to be strictly accounted for and the reason for any missing documents determined and documented . . .
- j. A balance and summary of all cash receipts is to be prepared daily, Any shortages or overages are to be carefully investigated and, to the extent possible, corrected.

- k. Receipts are to be deposited intact on a daily basis. In the handling of cash and making of deposits, security procedures that will safeguard the cash asset are to be followed.

Section 6.2.2.1.2. states:

- e. Petty cash checking accounts are to be reconciled monthly by a person other than the custodian.

The control weaknesses exist due to the decentralized nature of the cash handling units. Internal control weaknesses present individuals with the opportunity to perpetrate and conceal fraudulent activity without detection or allow inadvertent errors to occur and not be detected in a timely manner. Weaknesses in decentralized cash operations at WSU have been reported in the two preceding audit reports.

We recommend WSU improve implementation of established internal controls policies and procedures over decentralized cash operations.

Auditee's Response

The University will continue to provide and require training for persons who are responsible for decentralized cash operations. Instances of non-compliance with established internal control for handling cash are followed up on and corrected by the Controller's Office.

3. Washington State University (WSU) Should Improve Controls Over Payroll Functions At Departmental Levels

WSU has more than 175 decentralized payroll units. Each unit is responsible for preparing initial documentation to support payroll and accounting for compensated absences. Total payroll expenditures approximate \$200 million each fiscal year. The development and implementation of adequate internal controls is the responsibility of each payroll unit. University administration's ability to centrally monitor the adequacy of controls and state requirements and university policies is limited.

Our audit of the university's payroll system revealed the following weaknesses at the departmental level:

- ◆ There is inadequate segregation of duties. In many departments, one person is responsible for compiling, submitting, and reviewing payroll information processed by Central Payroll Services (CPS). The same individual reviews and approves original time records, accounts for compensated absences, summarizes information for CPS processing, and reviews the Payroll Audit Expenditure Report (PEAR) received from CPS for accuracy. In most cases, there is no additional or supervisory review of this person's duties.

Section 6.2.2.1.10 of the state of Washington Office of Financial Management (OFM) *Financial and Administrative Policies, Regulations, and Procedures* manual states in part:

- a. Responsibilities for supervision and timekeeping, personnel, payroll processing, disbursements, and general ledger functions should be assigned to provide division of duties.

The WSU *Business Policies and Procedures Manual* (BPPM), Payroll, 55.28.1 states the following:

The Payroll Expenditure Audit Report (PEAR) is used to verify that employee pay corresponds to the pay-affecting personnel documents which have been submitted by administrative units and processed by Human Resource Services and Payroll Services.

The BPPM further states:

. . . a different employee should review the PEAR than the employee responsible for signing pay-authorizing documents . . .
. . .

An inappropriate separation of duties increases the risk that errors or irregularities could occur during the normal course of payroll processing and not be detected in a timely manner.

- ◆ There is inadequate supervisory approval of time records. Daily Activity Reports are not always signed by the employees and are not consistently dated by either employees or supervisors. We noted several instances where the Daily Activity Reports were signed by employees in advance of actual hours worked.

Section 6.2.2.1.10 of the OFM manual states in part:

- d. Detailed records of hours worked are to be maintained and approved . . .
- h. Procedures are to be established to ensure that all attendance reports and payroll reports are verified by supervisory personnel.

The WSU BPPM, Personnel, 60.61.1 states in part:

The Daily Activity Report or the time clock is the official record of hours worked or pieces completed . . . The employee records the hours worked or pieces completed each day as the activity occurs . . . The employee signs the report certifying the accuracy of the report . . . The supervisor signs the report or time clock card verifying the accuracy of the report.

Failure to properly review and approve time records results in an increased risk that errors, irregularities, and omissions could occur and not be detected in a timely manner.

- ◆ The university does not require prior written approval for overtime or leave. This results in individual departments developing informal systems such as the use of calendars for tracking leave. These informal systems are not accurate or complete. We were unable to determine that all leave taken was included in pay affecting time reports.

Section 6.2.2.1.10 of the state of Washington OFM manual states in part:

- g. Written procedures are required for approving, recording, and controlling sick leave, vacations, holidays, overtime, compensatory time, and stand-by time.

Washington Administrative Code (WAC) 251-22-070 states in part:

- (2) All requests for vacation leave must be approved by the employing official or designee in advance of the effective date . . .

WAC 251-22-110 requires that certain sick leave be approved in advance:

- (1) Sick leave shall be allowed an employee . . . (h) For personal medical, dental or optical appointments or for family members' appointments . . . if arranged in advance with the employing official or designee.

The university cannot adequately control and monitor leave balances without prior written approval for overtime and leave.

- Pay affecting time reports which document leave accruals and uses are not completed in a timely manner. Discussions with Human Resource Services personnel indicated that the pay affecting time reports are not always consistently maintained. This condition was confirmed with departmental personnel. In some cases, the reports have not been completed since April of 1996. Sections 60.60.10 and 60.62.9 of the WSU BPPM require that pay affecting time reports be submitted to Human Resource Services and Payroll Services according to the deadlines on the Payroll Documents Calendar. Pay affecting items include payments for overtime, civil leave, unused sick leave, etc.

Accurate financial reporting of accumulated leave balances cannot be ensured without timely completion of pay affecting time reports. Untimely completion of these reports may result in late payment of overtime and employees may encounter difficulty in scheduling leave. Employees may also be paid in excess of accrued balances.

- Our testing revealed instances in one department where employees are employed in temporary appointments in order to avoid paying benefits. Employment records are knowingly falsified in order to avoid requirements of the *Washington Administrative Code*. Employees work full time, are instructed to record fewer than full time hours, and are paid at inflated hourly rates.

WAC 251-01-415 states in part that Temporary Appointments are designed for:

- (2) Performance of work which does not exceed one thousand fifty hours in any twelve consecutive month period from the original date of hire . . .

WAC 251-12-600 states that remedial action can be taken under the following circumstances:

- (1)(b) The employee has worked in one or more positions for more than one thousand fifty hours in any twelve consecutive month period since the original hire date . . .
- (2) Remedial action includes the power to confer permanent status, set salary, establish seniority, and determine benefits accrued from the seniority date

The WSU BPPM, Personnel, 60.27.10 states in part:

Employing units must monitor the number of pieces and hours worked in order to comply with temporary employment regulations. The employee may not exceed employment limitations. The employer must terminate the employee's work when hour limits have been met.

Employees who work full time and record fewer hours than actually worked, receive no benefit accruals or overtime as required by WAC 251. These employees do not earn sick leave, annual leave, holidays, health insurance, life insurance, or disability insurance to which they are entitled. The incorrect reporting of hours also affects some university payroll tax liabilities.

- Written notification of temporary appointment status was not provided to employees as required.

WAC 251-19-122 states in part:

- (1) All temporary employees shall be notified in writing of the conditions of their employment prior to the commencement of each appointment . . .
- (2) The written notification shall include . . .
 - (a) The reason for the temporary appointment
 - (b) The hours of work and the hourly rate of pay
 - (c) The duration of appointment

Lack of written notification of conditions of employment allow the employers to manipulate payroll records without the knowledge or consent of the employee.

Internal control weaknesses present individuals with the opportunity to perpetrate and conceal fraudulent activity without detection or allow inadvertent errors to occur and not be detected in a timely manner. Weaknesses in the departmental payroll process at WSU have been reported in the two preceding audit reports.

We recommend university management enforce adherence to OFM regulations, WAC requirements, and university policies. We further recommend the university improve accounting and administrative controls over payroll functions at the departmental level.

Auditee's Response

University management requires adherence to OFM regulations, WAC requirements and University policy. Instances of non-compliance are followed up on and corrected by the University Payroll Office. The University will continue to provide training to departmental personnel in internal control and regulatory requirements regarding payroll processing.

4. Washington State University (WSU) Should Assess The Risks In Its Internal Control Systems In Accordance With Office Of Financial Management Requirements

Our examination revealed that WSU has not performed an annual risk assessment of its internal control systems since fiscal year 1993.

The state of Washington Office of Financial Management (OFM), *Financial and Administrative Policies, Regulations, and Procedures* manual Section 6.1.1.2.1.b states in part:

The internal control officer is responsible for assuring that the agency has performed the required risk assessments and performed the evaluation processes, as necessary . . . A risk assessment of agency internal control systems is to be made annually. An internal control evaluation is to be made when the risk assessment indicates a high level of risk associated with an agency internal control system.

Additionally, Section 6.1.1.2.2 states:

Annually, each agency director and chief financial officer shall sign and submit a Financial Disclosure Certificate to OFM, Accounting and Fiscal Services Division. This certificate will report the results of the agencies compliance with this policy, including an attached summary description of material internal control weaknesses, if any, and a brief corrective action plan.

The university's failure to adhere to the above OFM requirements results in an incorrect certification to OFM that their system of internal controls was in compliance with the prescribed requirement of the OFM manual. In addition, failure to identify risk and implement the controls necessary to reduce these identified risks may contribute to the misuse and misappropriation of public fund, inadequate safeguarding of assets, inaccurate and unreliable accounting data, and noncompliance with managerial policies.

University management has planned mandatory training for area financial managers in early 1997 for completion of the annual risk assessments. The results of these departmental risk assessments will be reviewed by the internal control officer and the evaluation of high risk internal control systems will be performed by internal audit. The internal control officer indicated that the lack of personnel resources has made it difficult to develop the necessary training and comply with these requirements in a timely manner.

We recommend WSU assess the risks in its internal control systems in accordance with OFM requirements.

Auditee's Response

The University has established a process to complete a University wide risk assessment on an annual basis. This process is underway for FY 1996-97 and will result in compliance with OFM requirements.